

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Ashirvad Food Products Private Limited

December 13, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	20.64	IVR BB- /Stable (IVR Double B Minus with Stable Outlook)	Reaffirmed
Short Term Bank Facilities	7.36	IVR A4 (IVR A four)	Reaffirmed
Total	28.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Ashirvad Food Products Private Limited (AFPPL) continues to derive comfort from its experienced promoters, own brand and its tie up with government of West Bengal for supply of Atta under PDS scheme. However, the rating strengths are partially offset by its small scale of operations, thin profitability, low entry barriers, volatility in the prices of raw materials, high working capital intensity leading to high gearing levels & stretched debt protection matrices.

Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Improvement in debt protection parameters with improvement in cash accruals

Downward factor:

- Any deterioration in liquidity profile
- Moderation in the capital structure with further deterioration in the overall gearing to more than 3x

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter

AFPPL is promoted by Mr. Lalit Kumar Poddar and Mr. Sarvesh Poddar since 2011. Mr. Lalit Kumar Poddar has more than 37 years of experience, and has worked with reputed companies.

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He sees the overall planning of the companies operation. Mr. Sarvesh Poddar leads the marketing for AFPPL and handles the plant operations since 8 years.

Own Brand Name

The company has its own brand name “SWASTHA”. They sell all the products under their own brand name, hence with increase in sales volume, the profits will increase as the retail margins are higher in comparison to wholesale margins.

Tie up of Govt. of WB

The company has tie up under PDS scheme with the Government of West Bengal.

Key Rating Weaknesses

Small scale of operations and thin profitability

Despite its long track record of operations, AFPPL has a modest scale of operations with total operating income of Rs.54.35 crore in FY19. However, notwithstanding its small scale of operations the company has achieved a y-o-y growth of ~9% in FY19. The company has thin profitability due to its low value additive nature of operations with high competition and less product differentiation. Further, the EBITDA margin deteriorated from 6.39% in FY18 to 4.89% in FY19 due to increase in manufacturing and administrative expenses. However, the PAT margin though continues to remain thin improved marginally in FY19 driven by decline in finance charges.

Volatility in the prices of raw materials

The key raw materials required for manufacturing atta, suji, maida & choker is wheat. The prices of wheat are volatile in nature and accordingly the profitability is exposed to volatility in raw material prices. The cost on raw materials consists of about 80% of cost of goods sold and thus the profit margin of the company is exposed to price volatility risk.

Intense competition with low entry barriers

AFPPL mainly operates in the State of West Bengal where there are low entry barriers for the business and many small players are part due to low level of product differentiation. Also, the other wholesale segment where they sell their products is exposed to high risk of competition from Uttar Pradesh Atta manufacturers.

High working capital intensity

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AFPPL operations are working capital intensive, marked by its high operating cycle. The operating cycle though improved from 216 days in FY18 continues to remain elongated in FY19 at 183 days. High operating cycle is attributable to large inventory holding requirements for raw materials and finished products to support distributor/ dealer channel. Also, the average utilisation of fund-based working capital bank limits was high at ~98%.

High gearing levels & stretched debt-protection matrices

The company has working capital requirements which is mainly funded by bank borrowings. Higher dependence on bank borrowings resulted in stretched overall gearing ratio of 2.55x as on March 31, 2019 (2.31x as on March 31, 2018). With high debt level and low cash accruals, Total Debt/ GCA continues to remain high at 35.38 years as on March 31, 2019 (33.39 years as on March 31, 2018). The company had unsecured loan from directors and relatives of Rs.5.59 crore as on March 31, 2018, which was considered as neither debt nor equity while assigning the rating last year as per the subordination request received. However, due to non-maintenance of the same in the business, we have considered the same as debt this year.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched - The Company has stretched liquidity marked by lower cash accruals and high average utilisation of fund based limits of ~98% during the past 12 months ended October 2019 indicating a limited liquidity buffer.

About the Company

Incorporated in December 11, 2003, Purulia based Ashirvad Food Products Pvt Ltd (AFPPL) was promoted by one Mr. Dinesh Agarwal. However from 2011 onwards, Mr. Lalit Kumar Poddar took over AFPPL from Mr. Agarwal by purchasing the company. Mr. Poddar and his nephew Mr. Sarvesh Poddar look after the operations of the company since takeover in 2011. The manufacturing facility of the company is located at Purulia. The company is operating under the Priority Sector under essential commodities in the category of MSME sector. The Company manufactures Atta, Maida, Suji & Bran including Government Job work under

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Public Distribution System (PDS) as per directive of Government of West Bengal which further contribute towards margin of the company. The company has launched its products, i.e. Atta, Maida, & Suji in different consumer packs under the Brand name of “SWASTHA™”.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	49.98	54.35
EBITDA	3.19	2.66
PAT	0.05	0.08
Total Debt	21.82	24.27
Tangible Net worth	9.45	9.53
EBITDA Margin (%)	6.39	4.89
PAT Margin (%)	0.09	0.14
Overall Gearing Ratio (x)	2.31	2.55

*Classification as per Infomerics’ standards.

Status of non-cooperation with previous CRA: India Ratings has flagged its rating to ‘Issuer not co-operating’ vide press release dated July 09, 2018 on account of failure of the borrower to submit information as required by India Ratings.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Facility- Cash Credit	Long Term	20.64	IVR BB-/ Stable Outlook	IVR BB- / Stable Outlook	-	-
2.	Short term Non Fund Based Facility- Letter of Credit	Short term	0.25	IVR A4	IVR A4	-	-
3.	Short term Non Fund Based Facility- Bank Guarantee	Short term	5.63	IVR A4	IVR A4	-	-
4.	Short term Non Fund Based Facility- Bank Guarantee (proposed)	Short term	1.48	IVR A4	IVR A4	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility- Cash Credit	-	-	-	20.64	IVR BB- / Stable Outlook
Short term Non Fund Based Facility- Letter of Credit	-	-	-	0.25	IVR A4
Short term Non Fund Based Facility- Bank Guarantee	-	-	-	5.63	IVR A4
Short term Non Fund Based Facility- Bank Guarantee (proposed)	-	-	-	1.48	IVR A4